REFUNDING THE PUBLIC DEBT.

FINANCIAL POLICY OF THE SECRETARY OF THE TREASURY.

CAN A THREE-AND-A-HALF PER CENT. BOND BE NEGOTIATED AT PAR?

SPEECH

OF

HON. FERNANDO WOOD,

OF

NEW YORK

IN THE

HOUSE OF REPRESENTATIVES,

THURSDAY, MARCH 4, 1880.

WASHINGTON.
1880.

SPEECH

OF

HON. FERNANDO WOOD.

The House having under consideration the bill (H. R. No. 4592) to facilitate the refunding of the national debt—

Mr. WOOD said:

Mr. SPEAKER: The total of the debts of all nations is computed at about ($24,000,000,000) twenty four thousand millions of dollars. The largest debt-owing nations in the world are France, Great Britain and Ireland, the United States, Russia, Italy, and Austria-Hungary.

France	$3,972,407,312
Great Britain and Ireland	3,888,907,980
United States, (February 1, 1880)	2,188,199,391
Russia	1,875,000,000
Italy	1,804,037,035
Austria-Hungary	1,734,634,530

For the purposes of this discussion it is not necessary to state the nature and character of the obligations of these nations, or to give the history of their liabilities. It is gratifying to know that with three times the actual wealth and capacity of production of either of them the United States stands the third in the extent of its obligations. The debt of England is two centuries old; ours less than twenty years. The first national obligation created in England was in 1664; but in about eight years she defaulted in meeting the principal and interest of a liability so small as £1,321,000, and it was not until 1684, twelve years afterward, that the interest was paid. In 1699 an act was passed by Parliament funding the principal of this sum into three percents, and it is a singular fact that this was the beginning of the present national debt, and remains a portion of it to this day.

Every reign from Charles II down has added to it until that of the present sovereign. The total debt in 1859, twenty years ago, was $4,045,511,410. In 1878 it was $3,888,907,980. Like other nations, wars have produced her public debt. The wars with other nations of Europe in the middle of the eighteenth century raised her debt from £52,092,238 to £138,865,450. The war of the American revolution cost her £121,267,-993; the war with Napoleon cost her £601,500,343, and the Crimean war about £100,000,000. In times of peace she has invariably slightly decreased her debt. These heavy obligations have, however, been made

light in consequence of the low rate of interest they bore. Her good faith and abundant resources have kept her credit unimpaired. But in neither of these regards is she our superior. We have not defaulted upon our national obligations, but have met them in the most trying emergencies promptly and easily. The people have endured the necessary taxation by which this has been accomplished.

The financial policy of England has beyond question been a wise one. She has been conservative and honest in the management of her debts, and, with the exception of the single instance cited, which occurred over two hundred years ago, at the beginning of the funding operations, and before any well-settled policy had been adopted, she has been prompt and reliable in meeting every obligation on the day of its maturity. The interest upon her debt has rarely been over 3 per cent., and, although she has never made a large reduction of its volume, her credit has stood the first in Europe. It is evident that the United States has far greater resources to meet its obligations than Great Britain or any other nation. She stands even now, in the beginning of her national existence, as the creditor nation of the world. All that is necessary to maintain supremacy is wisdom, caution, and good faith. Why should she invite distrust by submitting any longer to a rate of interest so much higher than that of England?

And a more pertinent and prominent consideration arises, the question why we should not reduce taxation by making an effort to reduce the cost of carrying so large an obligation to something like that of England. To show more clearly the difference between our policy and that of England with reference to the interest charge upon the public debt, I refer to the following facts: England with a total debt in 1878 of $3,888,907.980 has only the interest charge of 3 per cent., (see Whitaker's Almanac for 1879, page 118,) while the interest-bearing debt of the United States in the same year was only $1,780,725,650, (Comptroller of Currency's Report 1879, page 12,) and yet the interest charge was $102,500,874.65, or about an average of 5½ per cent. (Secretary of Treasury's Report for 1878,) which was increased in 1879 to $105,327,949 (Secretary of Treasury's Report 1879) on an increased debt of $1,887,716,110. (Comptroller Currency's Report 1879.)

Comment upon these suggestive facts is quite unnecessary. They speak for themselves. It is our duty to relieve the people of such an enormous and unnecessary load at the earliest practicable moment. In my judgment that time has actually arrived, and it will be a criminal dereliction of duty not to avail ourselves of it.

THE PUBLIC DEBT.

The debt of the United States is of recent origin, and was of very sudden creation. Before the late civil war it may be said that we were without a debt of sufficient magnitude to be worthy of the name of a "national debt" in the general meaning of the term. In 1835 it was at

its minimum—it was almost nothing. The war with Mexico, in 1846, caused its commencement. In January, 1861, it had reached only $66,243,721. But at the beginning of the war in that year it increased at the rate of about four millions a month, reaching in July, 1861, $90,580,873. In 1862 it increased more than thirty-six millions per month, reaching at the close of the fiscal year, July 1, 1862, to the sum of $524,176,412. During the next fiscal year it was more than doubled, being on July 1, 1863, $1,119,772,138. At the same period in 1864 it was $1,815,784,370; from that time until the close of the war in April, 1865, it increased at the rate of about two millions a day, and for the succeeding five months the increase was about three millions a day until it reached its maximum, August 31, 1865, of $2,845,907,626.

Thus it will be seen that this enormous debt was created between January 1, 1861, and August 31, 1865, or within four years and seven months. Of this sum there were at that time but $1,109,568,191.80 funded, the balance being made up of various items of temporary obligations, some of which were subject to interest. The Finance Report of 1865 states that the average interest on $1,725,000,000 of the debt was $6\frac{62}{100}$ per cent. The management of the public debt from that period has not been the best that could have been devised. There has not been a stable policy founded on principles of enlightened statesmanship. For the purpose of strengthening the public credit at the commencement of the war and giving confidence to those who were disposed to become Government creditors, a so-called "sinking fund" was established, which was immediately disregarded, even by those who had created it, and which has been irregularly complied with since.

The anxiety to dispose of our bonds by employing the bankers of other countries, as evinced in the proposition to make the interest payable in London and other European capitals, the sending of agents abroad to open American Government offices authorized to "auction" the bonds in those markets, and the payment of large commissions for effecting their sale, altogether had for some time a depreciating effect upon our credit.

These and other short-sighted methods, hereafter to be referred to, showing anxiety to effect negotiation, served for some time to make refunding an exceedingly difficult task at such rates as our bonds were really worth. Recently, however, in spite of such mistakes, our claim to a high financial standing has been universally conceded. Our credit is firmly established on the best basis. It is recognized and admitted by timid and conservative investors in public funds, who hazard nothing at any time and under no inducements.

THE PRESENT FISCAL MANAGEMENT.

It is said that the policy of the present Secretary of the Treasury has produced this confidence. I have no wish to depreciate the wisdom he has displayed in some of his suggestions. Personally I have much respect for his astuteness and tact, but I am compelled to with-

hold approval of the many serious blunders he has made as the custodian of the financial interests of the Government.

Before making direct reference to the immediate question involved in the refunding of the maturing bonds, I will refer to some of these errors.

It is the general opinion that the outstanding funded debt has been decreased within the past five years. According to the table furnished by the Comptroller of the Currency (see Report for 1879, p. 12) there has been an increase since 1873, when it was but $1,695,805,000; whereas it was, at the beginning of this fiscal year, $1,877,716,000. The Comptroller's table and the annual interest charge is as follows; the interest charge is taken from the several annual reports of the Secretary of the Treasury during that period:

Table showing the amount of unmatured interest-bearing bonds outstanding.

Year.	Bonded debt.	Interest charge.
1868	$2,063,110,200	$140,424,045 71
1869	2,107,930,600	130,694,242 80
1870	1,986,521,600	129,235,498 00
1871	1,888,133,750	125,576,565 93
1872	1,789,451,100	117,357,839 72
1873	1,695,805,950	104,750,688 44
1874	1,724,252,750	107,119,815 21
1875	1,707,998,300	103,093,544 57
1876	1,696,685,450	100,243,271 23
1877	1,697,888,500	97,124,511 58
1878	1,780,735,650	102,500,874 65
1879	1,887,716,110	105,327,949 00

The total debt, less cash in the Treasury, on January 1, 1880, was $2,011,798,504.

It will be seen that there has been no reduction in the debt in the past five years, both the debt and the interest charge having been increased; this has not been caused by any extraordinary demands upon the Treasury. There has been no extraordinary expenditure, nor has there been any corresponding diminution of the revenues. It will be difficult to account for it except upon the supposition that it has been caused by the issue of bonds for resumption and the funding of non-interest-bearing liabilities.

But, on examination of the amount of these liabilities for the years indicated, it appears that they have not been decreased, but remain about the same as they did five years ago. With the continued maintenance of our present rate of taxation, producing average annual receipts of over $300,000,000, it would seem that with an economical administration, followed by less expenditure, there would be a surplus sufficient to have justified a reduction of the debt. But, from erroneous policy or some other cause, the national obligations have been increased, although the rate of taxation has been rigidly adhered to. No effort has been spared in obtaining revenue. Extraordinary vigilance, accompanied by an arbitrary and unrelenting execution, has marked the way in which the rev-

enue laws have been enforced, while looseness has been practiced in the dispensation of patronage, and the opportunity given to those employed to compensate themselves liberally.

This course has been adopted especially in the city of New York, where the spies and detectives, technically called special agents of the Treasury, have been sustained in practices which have caused loss of revenue, infringement upon the rights of the citizen, and unjust accusations of fraud, involving the reputations of merchants of the purest character. There can be little doubt that other motives than public good have prompted this extraordinary zeal.

On January 24, 1879, the Senate adopted a resolution calling upon the Secretary for information as to the expense of issuing and disposing of bonds, &c.

In reply to this resolution the Secretary sent a communication to the Senate dated March 26, 1879, (Senate Document No. 9, first session Forty-sixth Congress.) The following extract from this document, pages 3 and 4, contains matters to which I call the special attention of the House:

On January 29, 1875, the contract of July 24, 1874, was renewed the contracting parties being Messrs. August Belmont & Co., of New York, on behalf of Messrs. N. M. Rothschild & Sons, of London; Messrs. Drexel, Morgan & Co., of New York, on behalf of Messrs. J. S. Morgan & Co., of London; and Messrs. J. & W. Seligman & Co., of New York, on behalf of Seligman Brothers, of London.

The conditions of the contract were so modified that the contracting parties received a commission of ½ of 1 per cent. on $122,682,550 bonds sold for refunding purposes, and 1 per cent. on $15,215,500 bonds sold for purposes of carrying into effect the third section of the act of January 14, 1875, from which commission they defrayed all expenses connected with the issue, including expenses of preparing the bonds.

The next contract was for the negotiation of the 4½ per cent. bonds, and was made by Secretary Morrill, August 24, 1876, the contracting parties being Messrs. August Belmont & Co., of New York, on behalf of Messrs. N. M. Rothschild & Sons, of London, and Messrs J. & W. Seligman & Co. for themselves and associates; and Messrs. Drexel, Morgan & Co., on behalf of Messrs. J. S. Morgan & Co.; and Messrs. Morton, Bliss & Co. for themselves and associates. Under this contract the contracting parties were to pay accrued interest on the bonds to the date of their application for delivery, and to pay all expenses of the issue, including the preparation of the bonds, and were to receive a commission on the amount negotiated of ½ of 1 per cent.

When I entered upon my duties of my present office, March, 1877, there had been sold under this contract $90,000,000 of these bonds.

In the following May it became apparent that the condition of the money market had become so favorable that 4 per cent. bonds could be sold at par, and I therefore availed myself of a privilege secured by the contract, and gave notice that the sale of the 4½ per cent. bonds would be limited to $200,000,000, and of this amount an agreement was made that $15,000,000 should be applied to resumption purposes.

Sales were rapidly made to the amount of $185,000,000 for refunding purposes and $15,000,000 for resumption purposes. The expenses were paid and the commissions allowed as per the terms of the contract.

At that time there had been issued in redemption of 6 per cent. bonds $486,043,000 of five per cents, and $185,000,000 of four and one-half per cents, making a saving in the annual interest charge of $7,635,430.

On the 9th day of June following I made a contract with Messrs. August Belmont & Co, of New York, on behalf of Messrs. N. M. Rothschild & Sons, of London, and themselves; Messrs. Drexel, Morgan & Co., of New York, on behalf of J. S. Morgan &

Co., of London, and themselves; Messrs. J. & W. Seligman & Co., of New York, on behalf of Messrs. Seligman Brothers, of London, and themselves; Messrs. Morton, Bliss & Co., of New York, on behalf of Morton, Rose & Co., of London, and themselves; and the First National Bank of New York City, for the sale, at par, in coin, of 4 per cent. bonds. The conditions as to accrued interest and commissions were in substance as in the previous contract, but I reserved the right to open the loan to popular subscriptions for a period of thirty days.

Such subscriptions were opened, and within the period mentioned they reached the amount of $75,496,550, of which I reserved for resumption purposes $25,000,000.

Additional sales of 4 per cent. bonds in small amounts were made during the following winter and spring by popular subscription, but the condition of the money market at that time did not give much encouragement for the further sales at par of bonds bearing so low a rate of interest.

Recognizing the duties imposed upon the Secretary of the Treasury to prepare for the redemption in coin of United States notes on January 1, 1879, I entered into a contract, April 11, 1878, with the parties of the previous contract for the sale of $50,000,000 4½ per cent. bonds for resumption purposes at a premium of 1½ per cent., the parties to defray the expenses of the preparation and issue of the bonds and to receive a commission of ½ of 1 per cent. on the amount issued.

The Secretary appears to be somewhat confused in his statement of the amount of bonds sold for resumption purposes. In his annual report of 1878 he fixes the sum at $95,500,000, which is reiterated in an official letter to me dated January 11, 1880. This is nearly $10,000,000 less than the amount as stated by him in his letter to the Senate of March 26, 1879, above quoted, in which he gives in detail the several amounts of bonds sold for this purpose. The following extracts from this document make the total amount of bonds sold for resumption $105,215,500, not including five and a half millions sold for the Halifax award.

1875, January 29, United States five percents, and 1 per cent. commission	$15,215,500
1876, August 24, United States four-and-a-half percents and one-half of 1 per cent. commission	15,000,000
1877, June 9, United States four percents, and ½ per cent. commission	25,000,000
1878, April 11, United States four-and-a-half percents, and ½ per cent. commission	50,000,000
	105,215,500

The interest charge on these bonds from the date of their issue to January 1, 1880, aggregates $12,806,589, as per the following table:

Interest charge on the bonds sold for resumption.

$15,215,500 from January 29, 1875 to January 1, 1880, 5 per cent	$3,743,430
15,000,000 from April 4, 1876 to January 1, 1880, 4½ per cent	2,524,315
25,000,000 from June 9, 1877 to January 1, 1880, 4 per cent	2,561,447
50,000,000 from April 11, 1878 to January 1, 1880, 4½ per cent	3,977,397
Total	12,806,589

The amount paid for commissions is as follows:

$15,215,500 at 1 per cent. commission	$152,155 00
15,000,000 at ½ per cent. commission	75,000 00
25,000,000 at ½ per cent. commission	125,000 00
50,000,000 at ½ per cent. commission	250,000 00
Total commissions	602,155 00
Total interest and commission	13,408,744 00

I leave out of this account the five and a half million bonds sold to pay the Halifax award, which were sold for resumption.

There has been $6,000,000 of legal-tenders redeemed, which has cost $13,408,744 to redeem. This was an expensive operation. There are those who give the Secretary much credit for having, as they say, succeeded in accomplishing resumption. The President had no hesitation, in his annual message, to refer to it as an event of extraordinary national benefit. I concur with him as to the great advantage to the country of having secured it, but doubt whether the little that he and his Secretary had to do with it has not cost the country a hundred times more than their agencies in its accomplishment were worth. They could not have prevented it with all their power over the Treasury; it was the result of influences which undoubtedly compelled and forced it.

I am not to be understood as objecting to resumption, but as objecting to the unnecessary expense in obtaining it. Why should preparations for resumption have begun so long before it was needed? The law providing for resumption to take place on the 1st of January, 1879, was passed January 14, 1875, and yet as early as January 29, 1875, fifteen days after its passage and nearly four years before it was to begin, $15,215,500 of 5 per cent. bonds were sold under this act, and ninety million since, the money placed in the Treasury, where it has remained useless and unproductive of interest, while the Government has been paying from 4 to 5 per cent. interest upon the bonds issued.

But this is not the most serious error of the Secretary, as exposed in the extract above quoted. It will be seen that he states that on the 9th of June, 1877, a contract was made with a syndicate composed of the First National Bank of New York City and others for the sale at par in coin of 4 per cent. bonds. Under this contract $75,496,550 were sold at par. On the 11th of April, 1878, ten months later, he sold to the same parties $50,000,000 of 4½ per cent. bonds at 1½ per cent. premium, less ½ of 1 per cent. allowed for commission, which left but $5,000,000 for premium, thus increasing the rate of interest ½ of 1 per cent., making a difference of interest against the Government upon the amount sold of $2,500,000 per annum for the whole period that the bonds had to run, which, being about fourteen years, made a net loss to the Government of $30,000,000. Under the funding acts of 1870 and 1871, by which authority to fund is conferred upon the Secretary, it may well be questioned whether, after the minimum interest of 4 per cent. had been reached, any higher bond could be subsequently issued.

Another yet more remarkable fact in connection with this sale of 4½ per cent. bonds is that at that time, April, 1878, these bonds were selling in New York in the open market at 103, being 2 per cent. more than the syndicate procured them for from the Government, making a profit on the transaction of $10,000,000. The four percents were at the same time over par in the same market. For the prices of these bonds for the year 1878 see table A in Appendix.

It may be said that the fifty million four and a half percents were

sold under authority of the resumption act, which expressly gives the Secretary authority to sell any class of bonds authorized under the act of 1870. I deny that this or any other act can be construed to empower that that officer to sell bonds for a less price than they are worth on the market, or that he can issue a 4½ per cent. bond at any rate of premium when the lower rate of 4 per cent. can be sold at par. It could not have been intended by Congress that he could fix the rate of premium by which he should dispose of these securities. Such a discretion, if abused, could be made to impose upon the people a high bearing rate of interest debt for the whole period of time that the law authorizes the bonds to be issued, and there would be no recourse by which the evil could be repaired.

But if the legal power exists to raise the interest upon the bonds from 4 to 4½ per cent., it does also to 5 per cent.; and thus may that officer of his own individual option increase the national obligations at pleasure.

In the case referred to, the only reason given by the Secretary is that "recognizing the duties imposed upon the Secretary of the Treasury to prepare for resumption in coin of United States notes on January 1, 1879, I entered into a contract April 11, 1878 with the parties of the previous contract for the sale of $50,000,000 4½ per cent. bonds for resumption purposes," &c. No reason is given for having raised the rate of interest ½ of 1 per cent., it being a matter apparently of not sufficient importance to require explanation. He had sold between June 9 and July 9, 1877, $75,496,550 (by popular subscription, the syndicate being the contractors) of bonds bearing only 4 per cent. interest, and yet on April 11, 1878, he disposes of $50,000,000 of bonds bearing 4½ per cent. interest to the syndicate without popular subscription. The conditions of popular subscription for thirty days which had been required in the 4 per cent. syndicate contract were omitted in the 4½ per cent. contract, and the syndicate got the benefit of the more favored and more valuable bond. The Secretary further states in extenuation of this extraordinary issue that this sale to "eminent bankers" "enhanced the value of the 4 per cent bonds." By reference to tables (Appendix A) it will be seen that this statement is not true. Certainly an extraordinary fact that the sale of 4½ per cent. bonds should "enhance the value" of the 4 per cent. It would have been presumed that the natural effect of the issue of a bond bearing an increased rate of interest would be to depreciate the value of the lower rate of interest bond. Certainly they could not be of equal value. It is said in defense of the Secretary's course that a tight money market had intervened and that he could not at that time effect the sale of a bond bearing so low a rate of interest as 4 per cent. How could the Secretary know at what price such bonds could be sold? By what authority does he fix the rate of interest upon bonds at pleasure, putting it up or down as he thinks best? From whom did he learn the condition of the money market that induced him to increase the rate of interest? Was it from the gentlemen who deal in securities, and who probably had an interest in obtaining a bond bearing a higher rate of interest? If he

has the power of fixing the rate of interest upon bonds which run for fourteen years without change of interest, it should be taken away at the earliest moment, for it is too great an authority to be intrusted to any man, especially when it can reach an amount aggregating $800,000,000. If he has not this power, the Secretary has exposed himself to criticism, if not to something worse. Andrew Johnson was impeached and came near being removed from the Presidency for alleged offenses not a tenth as great nor so detrimental to the public interests.

Much has been written and said of the success of refunding the high interest-bearing bonds into the 4 per cent. bonds. It is not denied that a very large amount of the lower rate bonds has been successfully negotiated. It cannot be contended, however, that the policy which had increased the debt could have been the one which enhanced its credit. It is contrary to the well-settled principles of finance that as the liabilities increase the credit increases also. The reverse result is the inevitable effect of such a course.

It is certain that circumstances of some kind have not only enabled the Government to obtain loans at 4 per cent. per annum interest, but also to have enabled a few parties to amass enormous fortunes in the operation. I cannot with any approach to accuracy estimate the total profits that have been realized in these transactions. The total amount of 4 per cent. bonds issued is about $740,000,000. These were sold at par and a half per cent. commission allowed to the purchasers, netting to the Government 99½ per cent. upon the amount sold.

The account, therefore, stands thus:

Present market value, at 107 per cent., on $740,000,000.	$851,800,000
$740,000,000 4 per cent. bonds, netting 99½	736,300,000
Making a profit to the holders and loss to the Government of..	115,500,000

Is it not a proper subject of inquiry as to who has made this profit and what relation the parties bear to the Government? Of course, as these bonds have been distributed in many different quarters, it would be impossible to ascertain the history of each. We must do the best we can. Fortunately we are not left in the dark as to the principal purchaser.

The following statements of the First National Bank of New York will furnish enough data upon which to conjecture the method by which the $740,000,000 bonds have been disposed of.

The following is the official report of the condition of the First National Bank of New York, June 14, 1879:

Report of the condition of the First National Bank of New York, at the close of business June 14, 1879.

RESOURCES.

Discounts and time loans..	$2,081,959 06
Overdrafts	964 52
United States bonds..	129,152,740 00
Other stocks and bonds...	1,034,747 09
Premiums...	535,708 71

Specie	$1,382,434 31	
Legal-tenders and bank-notes	2,066,165 00	
Due from Treasurer of the United States	7,250 00	
Exchanges	1,334,880 71	
Due from banks	404,165 31	
Demand loans	4,187,620 38	
		9,382,515 71
		142,188,635 09

LIABILITIES.

Capital		500,000 00
Surplus		1,000,000 00
Profits		579,018 88
Circulation		45,000 00
Deposits, banks	$8,423,084 92	
Deposits, individuals	3,532,460 25	
		11,955,545 17
Due Treasurer of the United States		128,109,071 04
		142,188,635 09

Correct. Attest:

GEO. F. BAKER,
H. C. FAHNESTOCK,
J. A. GARLAND,
Directors.

I, E. Scofield, cashier of the above-named bank, do solemnly swear that the above tatement is true to the best of my knowledge and belief.

E. SCOFIELD, *Cashier.*

Subscribed and sworn to before me, June 20, 1879.

JOS. T. BROWN,
Notary Public.

By this report it will be seen that on the 14th June, 1879, with a capital of only a half million dollars, this bank owed the Government $128,109,071, and held bonds of the United States for $129,152,740.

These were very large sums of both debits and credits for so small an institution to deal in. I know that it is said that the bonds are not delivered until paid for, and that this apparent mammoth operation is simply a fiction of book-keeping. If this is really so, the fact remains that by some inexplicable advantage a small private banking institution, the property of three men, has obtained facilities for the holding of enormous sums of the Government bonds by which they have acquired immense profits.

The following is the circular of this bank issued to its correspondents on the 7th of October, 1879:

To our correspondents.

First National Bank,
New York, October 7, 1879.

Dear Sirs: With much satisfaction we hand you herewith statement, condensed from the report of this bank to the Comptroller of the Currency, under date of October 2, and invite its comparison with our previous reports.

It exhibits the final liquidation of our large transactions with the Treasury Department in the 4 per cent. loan, the last payment upon which was made on September 30:

Our direct subscriptions for the four percents from January 1 to the close of the loan footed $208,500,000, the cost of which was........	$209,584,893 82
Add to this the balance at credit of the Department on 1st January..	19,757,948 50
And our payments to the Treasury during the nine months aggregated.	229,342,842 32

All of which has been completed without loss or error.

We may add that the total amount of United States bonds of all issues sold and delivered by this bank from January 1 to October 1, inclusive, was..	341,732,450 00
Called bonds purchased during same period	181,300,550 00
Making amount of United States bonds passing through our hands within these dates..	523,033,000 00

The above figures embrace a total of $284,385,600 four percents, of which $208,500,000 were taken directly from the Government and $75,885,600 were purchased by us in the market and represent original subscriptions made by others.

We find, also, going back to the introduction of the loan, that we have sold in all $400,449,050 out of the entire issue of $737,157,050 four percents.

Respectfully,

GEORGE F. BAKER, *President.*

From this statement it will be seen that this bank boasts that out of the total amount of 4 per cent. bonds issued up to that time ($737,157,050) it had sold $400,449,050, or over one-half, and that the total amount of United States bonds it had handled in nine months amounted to $523,033,000.

There is no instance in the history of this or any other government where anything like this has occurred. Neither the Bank of England nor the Rothschilds have held relations with either or all of the governments of Europe by which they had the privilege and consequent profits of negotiating so large an amount of Government bonds within the same time.

It is said that any other bank could have done the same, as this opportunity was open to all. This excuse is too puerile to deceive any one. It is impossible that any other bank could have undertaken such immense transactions, however large its capital, without possessing some unusual and peculiar opportunities. Hundreds of millions of dollars of Government bonds cannot pass through private hands unless the parties are agents of the Government or acting for some persons who are. This bank had passed into the hands of the present holders simultaneously with the incoming of the present Administration. It had been purchased of the then proprietor for a very small sum, and was an institution of obscure and uncertain credit. Within less than three intervening years it has become a mammoth Government bondholder, doing this peculiar business and little else, accumulating many millions of profits and acting as the great regulator of Government credit in New York. I am told that this bank expresses its firm belief that a 3½ per cent. bond cannot be sold, and that this opinion has weight with the Secretary of the Treasury.

For myself I prefer to rely on better authority than this, inasmuch as I have great distrust of the disinterestedness of the advice. I prefer to rely on other sources of information, which if not so much experienced are at least removed from the tempting influences of this character.

I have thus presented a few of the many errors which have been made in the management of the public debt. There are others as to the time and mode of putting bonds upon the market, to which exception can be taken. It will be observed that I have confined myself altogether to the issuing and management of the bonds of the Government. I have not touched upon the other and almost equally important branch of the Treasury service relating to the collection of the customs revenue, nor have I exhausted the bond question, especially as to the expense attending the preparation and internal handling. Much can be said upon these points, which will be reserved for another and more appropriate opportunity.

The immediate question now is as to the payment or refunding of the bonds maturing in 1880 and 1881. I propose to deal with this in a practical way.

THE FUNDING REQUIREMENTS OF THE TREASURY.

The Government must be prepared to provide for its maturing obligations redeemable 1880 and 1881, which, as stated by the Secretary of the Treasury in his last annual report, is as follows:

	Interest.
Redeemable December, 1880	$18,415,000—6 per cent.
Redeemable May 1, 1881	508,440,350—5 per cent.
Redeemable June 30, 1881	254,392,550—6 per cent.
Redeemable July 1, 1881	823,800—6 per cent.
	782,071,700

This comprises the several classes of bonds which can be paid and the precise periods when the Government can avail itself of the privilége of paying them off or stopping the payment of interest on them.

HOW SHALL THIS BE DONE?

In my judgment, the evident policy to be pursued in meeting these obligations should be such a one as would be adopted by an intelligent individual under like circumstances. He would reason that it was bad policy to be paying interest on an indebtedness if he had available assets to liquidate it altogether or any portion of it. His desire would be to reduce his obligations from his own resources, and not to continue and increase them by borrowing even at a lower rate of interest. What is wise for an individual is wise for a Government. Therefore, in considering the proper course to be pursued with reference to these accruing liabilities, we should see whether it is not practicable for us to liquidate at least a part of them.

In the statement of the public debt for January 1, 1880, the cash in the Treasury is stated at $207,983,903.92, and this is treated as the "available cash assets." Against this he states the current liabilities at $49,676,313.06, leaving the net available cash at $158,307,590.86. There

is no such amount of *current* liabilities proper. The item "interest due and unpaid" $3,140,357.99, cannot be fairly classed as a "*current liability*" for the reason that this amount represents the past-due interest on the debt then unclaimed, and is an item that may be fairly left out of the account, since for the last ten years it has never but once (and then only in May, 1874, by $33,000) fallen below this amount. During the ten years 1870–1879 the average amount of this unclaimed interest has been $6,367,000, (see table B, appendix,) the highest amount unclaimed at any one time being August 1, 1873, $13,176,085.94 and the lowest May 1, 1874, $3,108,165.74. The items "debt on which interest has ceased," and "interest thereon," are included in the current liabilities in full. These two items combined have not in the last ten years fallen below $1,949,350.80, and since funding operations fairly began, they have not been below $2,475,691.45 and have averaged a much greater sum. The past experience of the Treasury fully justifies the assumption that while the debt remains above $1,000,000,000, the items of "debt on which interest has ceased" and "interest thereon" will always be more than $2,000,000, and that the unclaimed interest will constantly exceed $3,000,000. It therefore follows that in estimating the current liabilities these sums should not be counted. The Secretary on this basis would have available cash January 1, 1880, $163,307,590.86, and on the basis of the bank reserve of 25 per cent. would require $86,670,254 for resumption purposes, leaving him $73,537,748 idle and useless money in the Treasury, that should be applied to the purchase of the maturing five percents and six percents.

This amount is constantly on the increase, as the revenues are in excess of the current requirements for ordinary purposes. For instance, the available cash balance, January 1, 1880, shows an increase of over $8,000,000 in the available cash over the preceding month. But why should the Secretary insist on keeping idle in the Treasury vaults over $15,000,000 of money, representing the matured debt and interest which experience shows will not be called for except in smaller and smaller amounts as time goes on, and two millions of which will probably never be called for? An examination of his own statements will show him the probable monthly rate at which this money must be provided, and with a constantly increasing cash balance the amount needs no consideration. The last calls appear by his recent statements to have matured in July, 1879, and since August 1, 1879, the outstanding "debt on which interest has ceased since maturity," as shown by the official report, has been, in round numbers, as follows:

	Principal.	Decrease each month.
August 1, 1879	$78,737,000	....
September 1, 1879	41,140,000	$37,597,000
October 1, 1879	29,674,000	11,466,000
November 1, 1879	23,079,000	6,595,000
December 1, 1879	18,247,000	4,832,000
January 1, 1880	14,691,000	3,556,000

Conservative financial management would certainly recognize the fact that as this debt is in the hands of thousands of small holders, and much of it will never be presented for payment, and what is will be presented in a gradually decreasing volume each month, there is no necessity for hoarding money against its day of coming.

But the Secretary says he wishes to keep this cash as a resumption fund for the purpose of maintaining specie payments. He is quite right in keeping faith with the holders of the legal-tender notes. The United States must maintain this position. He deserves credit for the energy and determination he has evinced in executing the law providing for resumption. I would do nothing to interfere with it. Without raising the question whether the accomplishment of resumption has not been the natural result of other influences than his policy, I am willing to aid in maintaining it unimpaired, by every possible legitimate means. But has not any danger to its maintenance long since passed? Can there arise any contingency or exigency short of a foreign war that could break it? Even the President and the Secretary himself appear to concede as much. They made reference to it in their last annual communications to Congress, which appear to accept resumption as an accomplished fact. The former says, "I congratulate the country on the successful execution of the resumption act."

The Secretary says in his last report "that actual resumption commenced at the time fixed by law, without any material demand for coin, and without disturbance to public or private business." It is evident that the public confidence in the solvency and credit of the Government was so great that no other security was required to effect resumption or to maintain it afterward. No one wanted coin when he could get its representative, any more than he would want a burdensome, unwieldy, and unsafe property in the place of a secure, portable, and convenient one of equal value.

It is a fact that for a month after resumption commenced nearly twice as much coin was paid into the Treasury as was withdrawn. That was the only period in which the necessary coin was required to maintain it. As soon as it was known that it could be had it was not wanted, and it has been so ever since, as it is certain it will continue to be. And yet the Secretary fears to endanger resumption by reducing the great volume of coin on hand. I think he is unnecessarily overcautious. Resumption cannot be endangered; but if it should be and circumstances should make it appear as the least probable, he is supplied with ample provision to secure its continuance in the resumption act itself. Section 3 of the act authorizes the Secretary "to use any surplus revenues from time to time in the Treasury not otherwise appropriated, and to issue, sell, and dispose of, at not less than par in coin, either of the description of bonds of the United States described in the act of Congress approved July 14, 1870, entitled 'An act to authorize the refunding of the national debt,' with like qualities, privileges, and exemptions to the extent neces-

sary to carry this act into full effect, and to use the proceeds thereof for the purposes aforesaid."

It will be seen that he can sell bonds bearing as high a rate of interest as 5 per cent., which would command all the coin required at twenty-four hours' notice.

Certainly this is an abundant resource to meet any possible contingency that could arise under any emergency.

The Comptroller of the Currency estimates that the total amount of United States bonds which mature in 1880 and 1881 held by the national banks, State banks, savings-banks, and trust companies on December 5, 1879, for the national banks and at their annual return of the other institutions, was $304,059,909, (see his letter, appendix C.)

The account will therefore stand as follows:

January 1, 1880, amount of bonds to be redeemed	$782,000,000 00
Amount since paid off	18,000,000 00
	764,000,000 00
Probable amount to be paid from revenues during present fiscal year.	20,000,000 00
	744,000,000 00
Amount required to replace the redeemable bonds belonging to banking and other institutions	304,000,000 00
	440,000,000 00
Amount of notes in anticipation of surplus revenues to be paid off and canceled within ten years.	200,000,000 00
Balance for general and private investment	240,000,000 00

I propose that the only bonds which shall be received from national banks as security for circulation shall be three-and-a-half percents.

Whatever doubt there may be as to the character of other investments, there can be no doubt as to the value of Government bonds to those institutions. The law compels the national banks to hold United States bonds as security for circulation and for Government deposits, and in some of the States similar laws force banking and other institutions of a fiscal character to keep a portion of their assets in these securities. The new 3½ per cent. bonds will be the only United States bonds that will be taken as security for national-bank circulation hereafter, if my views are adopted.

THE GENERAL PROVISIONS OF THE BILL.

The bill is based upon the theory that the existing public debt shall be liquidated at the earliest practicable period, and carried meanwhile at the lowest possible rate of interest. To accomplish these objects the existing rates of 5 per cent. and 6 per cent. interest upon the bonds redeemable in 1881 are to be reduced to 3½ per cent upon those which are to be issued with which to redeem them. Of the whole sum to be provided for there were, January 1, 1880, $508,440,350 of five percents and $273,631,350 of six percents, which has been slightly reduced in volume by the purchases of the Secretary made since that time, but which amount does not

vary the relative proportions of each class. The average rate of interest on both classes is about 5.33 per cent., which, reduced to 3½ per cent., as proposed in the bill, will make a difference of nearly 1.9 per cent. upon the total sum to be funded. This will be a saving of $14,481,042 per annum. But the bill goes further. It not only provides for this large annual saving in the interest charge, but in addition it provides for the reduction of the principal of the debt by the utilization of the surplus revenues for that purpose as far as the necessary expenditures will allow This it proposes to accomplish by the issuance of two hundred million of notes in anticipation of the revenues, redeemable at the pleasure of the Government after two years; the money derived from the sale or exchange of these notes at the time of their issue to be devoted to the redemption of the five percents and six percents, making it unnecessary to refund the whole sum becoming due, and the notes issued for this purpose to be paid off and canceled by the surplus revenues, thus reducing the principal of the debt to that extent. But forty millions can be paid off in any one year, the object of this restriction being to prevent any interference with the usual and natural condition of available funds for mercantile uses.

The revenue receipts from all sources for the past eight months, ending March 1, 1880, amounted to $215,429,637.50. The present average receipts are about $30,000,000 per month, which will make a total for the fiscal year of $335,000,000. The estimated expenditures for the fiscal year are $264,000,000, (Report Secretary Treasury, 1879,) which will leave a surplus of $71,000,000. It will be seen, therefore, that there can be no doubt of the cancellation of $40,000,000 per annum of these notes.

The fourth section continues the operation of the ten-dollar-certificate law, with some important changes. The original act was defective in its provisions for the prevention of evasion of the benevolent intention of the law. Immediately upon its passage combinations were formed for the funding of the certificates which were sold at par, while they were at the same time worth a premium in the open market. This evil the present bill will prevent. The Secretary has authority in addition to continue the issuance of the certificates so long as it shall appear advantageous to the classes which it is supposed will take them. As a safe depository for the surplus earnings of the industrial classes this law will be of inestimable value.

Another section makes it compulsory upon the national banks to deposit with the Treasurer no other bond as security for circulation. Thus by a long-needed provision of law we shall have a national-bank bond, and the Government will be spared the trouble and expense of constant changes in this class of securities held for that purpose.

I am aware that the bill will be antagonized from different sources and upon different grounds. It is a subject of grave and vast proportions, which may well cause very opposite opinions from equally intelligent and patriotic thinkers.

I can well understand and appreciate the theories which may be originated on this subject. I have no cause of quarrel with either, however much they may differ from me, or however unreasonable they may appear.

The positions of hostility as thus far shown emanate from—

First. Those who believe no further refunding shall take place; that the Government should utilize its revenues annually for the liquidation of the entire principal of the public debt.

Second. Those who believe that a 3 per cent. consolidated interminable bond should be issued, to be irredeemable, somewhat after the English principle.

Third. Those who propose to pay a high rate of interest for a very short-lived bond, trusting to the future for better times.

Fourth. The 4 per cent. interest party, who seem willing to let things run on in the future as they have in the past, quite willing to incur a large national annual obligation in the interest rather than to assume a bold and decided attitude of financial and commercial strength by dictating the rates of interest we will pay to the lender, instead of allowing him to dictate rates of interest to us.

My position and the terms of this bill present a judicious medium between these extreme views. Without attempting rash experiments, I propose to tread on secure ground. It will not do to deal rashly with a subject of such supreme importance as the public credit, nor to make an effort to force our obligations in a way that will jeopard success in their negotiation.

The rate of 3½ per cent. which is proposed is a conservative proposition. As to its feasibility of successful accomplishment I have no doubt.

England has gone through similar efforts to refund her public debt at a reduced rate of interest. Robert Walpole gained much distinction for his success in refunding in 1717 a 6 per cent. bond into a 5 per cent. bond. In 1729, 1750, and 1759 other conversions were effected. England gradually during this period reduced her rate of interest until it reached in 1759 but 3 per cent., at which it has remained ever since. In this consecutive reduction the volume of the debt was not increased from that cause. Since that period (1759) she has borrowed large sums, but has steadily maintained a 3 per cent. bond and had little difficulty in obtaining money at that price.

CAN 3½ PER CENT. BONDS BE SOLD AT PAR?

It is said by those who have not given the subject mature thought, or who are without knowledge gathered from practical sources, or who have an interest in continuing a system which has enabled them to realize enormous profits, that it is impossible. We have the authority of the Secretary of the Treasury for the statement "that the present is an exceptionally favorable time for refunding," (last annual report,) and the Comptroller of the Currency (p. 13, rep., Dec., 1879) states "that the credit of the Government is now such that it is not impossible that long

before the maturity of the fours the *present debt* may be refunded into $3\frac{1}{2}$ per cent. bonds, which is $\frac{1}{2}$ of 1 per cent. more than the rate of the English consols, thereby saving a large additional amount of interest."

These are cautiously expressed opinions, but mean much more than they appear to import. I do not, however, rely upon the opinions of even these high authorities for the belief that it can be done.

To look carefully into the causes for this belief will render it apparent to those less acquainted with the subject. The causes may be stated briefly thus:

First. The large surplus capital acquired within the past five years, now seeks a secure depository, even at an unusually low rate of interest, rather than to trust to the instability and hazards of trade or the less safe investments of incorporations or other private enterprises.

Second. The increasing moneyed institutions cause an increased demand for Government bonds, not only as a reliable reserve, but as offering an interest-bearing security convertible at pleasure into coin or cash to meet any sudden or unexpected necessity.

Third. Nearly the whole amount of the outstanding bonds is already absorbed and out of the market. They have been taken by those who seek permanent and safe investments not liable to be paid off for a long period, and which meanwhile cannot be defaulted in payment of interest.

Fourth. The four percents, having twenty-seven years to run, have been selling for several months at from $4\frac{1}{2}$ per cent. to $7\frac{1}{4}$ per cent premium, and are now difficult to obtain even at these rates. Certainly a $3\frac{1}{2}$ per cent. bond can be negotiated at par, (especially when the law allows the Secretary of the Treasury to pay $\frac{1}{2}$ per cent. commission for doing so,) the four percents being so much above par.

Fifth. For certain investment purposes a 4 per cent. bond having twenty-seven years to run is not worth as much as a $3\frac{1}{2}$ per cent. bond having fifty years to run. For estates, annuities, and surplus wealth, as well as for the purposes of those who live on their incomes and wish to secure their fortunes to their descendants, such a bond has a value beyond any other security to be found in this country.

Sixth. Because, like the bonds they replace, they will be exempt from national, State, or municipal taxation. One of the elements of value in a Government bond is that it possesses such advantages, which with its safety constitute its value more than the rate of interest it bears. A $3\frac{1}{2}$ per cent. bond will have in this regard as much merit as a 6 per cent. bond.

Seventh. The national banks require now as security for circulation about \$370,000,000, and this source of investments for Government bonds is constantly increasing as business increases. The rate of increase in banking circulation is about \$2,000,000 a month, so that it may be fairly estimated that the total on deposit for that purpose alone will be about \$400,000,000 by the commencement of 1881, which, with those held as security for deposits and as investments, will need from present indica-

tions about $100,000,000 more. The reasonable probability is that they will avail themselves of the opportunity to sell all the United States bonds on hand at the premium offered, and replace them with the new three-and-a-half percents to be obtained at par. This will sink full three-fifths of the whole amount of the three-and-a-half bonds to be issued, leaving but a comparatively small amount for other investments.

Eighth. If, as many suppose, the present balance of trade with foreign countries shall be reversed and turned against us, a foreign demand for our bonds will be sure to take place, and thus a new market be open for them which does not now exist. Whether any such trade changes should occur or not, it is a fact that European capitalists already are seeking our Government bonds as the safest and cheapest in the world, and as offering greater security than that of any European government, in view of the doubt existing as to their future political stability.

The same doubt as to the feasibility of negotiating a sale of the proposed three-and-half percents was held as to the feasibility of selling the four percents when that then low rate of interest was first suggested. In 1876 the Committee of Ways and Means had lengthy examinations of leading bankers from New York and other large moneyed centers as to the probability of negotiating such a bond, and but few of them thought that bonds of 4 per cent. interest could be negotiated. The result has proven to the contrary. That bond has become the favorite of the market. It was rapidly taken when offered by the Government and already $740,000,000 have been issued. These bonds have gradually advanced in market value until they are now at a high premium. There is no instance in the history of funding where so large an amount of government bonds at so low a rate of interest have been taken within the same period, and what is more surprising is the fact that they were taken almost exclusively by American investors. This fact, though remarkable to those who are familiar only with high interest, is easily accounted for by those who study more closely the policy which governs shrewd investors of large amounts, and the present condition of the times. The four percent is the only United States bond that possesses a life long enough to render it available for permanent investment, or to the least extent answers the purpose of the English interminables.

The United States has four classes of bonds outstanding, viz: Six percents all payable within eighteen months; the five percents all payable within seventeen months; the four-and-a-half percents all payable within eleven years and five months, while the four percents cannot be redeemed in less than twenty-seven years and a half. Hence their superior investment value.

Within two years the only remaining bonds in existence will be the four-and-a-half percents, with only nine years to run, the four percents with about twenty-five years to run, and those yet to be issued to replace the six percents and five percents about maturing. If the total bonded debt shall amount to $1,700,000,000 on January 1, 1881, it will be distributed,

if my suggestions as to the three-and-a-half percents are adopted, as follows: $250,000,000 four-and-a-half percents payable in eleven years; $740,755,000 four percents payable in twenty-seven years; the balance in three-and-a-half percents payable in fifty years; or, as the bill proposes, in forty years, with right of redemption in twenty years.

This classification of the debt into three different rates of interest-bearing bonds would be similar to the French system, as per the following table. (See letter from Consul-General Fairchild to the State Department, December 13, 1879:)

NATIONAL DEBT OF FRANCE, JANUARY 1, 1879.

The consolidated debt of France on January 1, 1879, amounted to $3,972,407,312.44, and was bonded as follows:

5 per cent. bonds	$1,383,494,048 00
4½ per cent. bonds	166,412,351 11
4 per cent. bonds	2,230,480 00
3 per cent. bonds	2,420,270,433 33
Total	3,972,407,312 44

Upon a careful examination it will be found that the market value of the bonds will depend more upon the duration of their lives than upon the fractional difference of interest. What the three-and-a-half percents may lack in the rate of interest should be made up by the permanency of their character.

Since the passage of the funding acts of 1870, authorizing the funding of $1,500,000,000, the Government has readily disposed of $1,400,000,000 without submitting to a price less than par. The interest has been gradually reduced from 6 to 4 per cent., a decrease of 33⅓ per cent., without any delay or sacrifice in disposing of the lower bonds offered.

The banks and syndicates who, with intelligent appreciation of the value of the security, have been prompt to avail themselves of the opportunity, have realized large profits by the speedy sale of every bond they subscribed for, and it is now well known that they have none remaining. They are now anxiously awaiting Congress to give new authority to the Secretary to "go on and do likewise" with the seven hundred and eighty million remaining to be redeemed that they may again repeat the operation. If, during the past few years through times of depression there has been developed such a demand for four percents, it may be supposed that now with our greatly increased financial strength there will be as ready a market for three-and-a-half percents. There has been an enormous increase in the surplus capital of this country, which is now seeking some safe deposit place. The balance of trade in our favor within four years has amounted to about $1,000,000,000, a large part of which has fallen into the hands of those who seek Government securities as the only unquestionably safe depository.

The recent large receipts of foreign gold, the enormous amount of values extinguished—the depreciation of all other securities—the losses by the failure of savings-banks, trust companies, and other insti-

tutions—the immense losses by bankruptcies and general depression, have produced a widespread distrust of every representative of value except the issues of the Government. Thus a combination of influences is operating to give our bonds a strength of position which defies competition from any other source. And why should not this be?

There are so many causes for the superiority of the Government securities over any other security that it is difficult to state them all.

The leading ones may be classed as follows:

First. Their absolute safety.

Second. Their ready convertibility.

Third. Their being free of taxation, either national, State, municipal, or local.

Fourth. The permanent character of the investment.

Fifth. Their security (when registered) from fire, burglary, or loss from any other cause.

Sixth. Their universal acceptability in any part of the world with an established value regulated by their price in New York and London.

Seventh. Their exemption from fluctuation in marketable value, being removed from the influences of trade, which affects all other securities.

Eighth. Because they are the only representative of value which combines both security and profit, being absolutely secured beyond any contingency that can affect either.

For these reasons our bonds have a use which imparts to them a character other than their ostensible face value. They possess attributes above and outside of any other representative of value known to capitalists, traders, and others.

In consequence of these especial characteristics, they are sought for by very many classes of persons in the United States and in Europe, in preference to other sources of investments. Some of these may be stated as those who, acting as trustees of estates, will risk no loss; as the courts and others who have the custody of funds depending upon the results of judicial determinations; as the disposition of funds held in trust for minors, widows, lunatics, and absentees from the country; those who have surplus wealth which they wish to secure against loss; merchants who hold reserves to meet mercantile contingencies available at any moment. The large amount of *registered* bonds, amounting in the aggregate, on the 1st of January last, to $1,147,734,650, being about two-thirds of the funded debt, represents but a portion of the total sum that is thus locked up. As the country grows richer, which it is now doing to an unparalleled extent, the demand for registered bonds will become so great that the total remaining debt will not be large enough to meet the requirements for this purpose alone.

The tendency to a lower rate of interest even for business purposes is manifest. Unlike the past, an actual business demand for money does not appear to enhance its value or make it dearer. In this country this fact is exceptionally the case at this time. The State of New York has

just lowered its legal rate of interest from 7 per cent. to 6 per cent. per annum, and loans on bond and mortgage are now made in that State on 5 per cent. interest. Georgia has recently negotiated a loan at 4 per cent. per annum, and other States have effected loans at less than 6 per cent.

In Europe the present low rate of interest is noticeable. The following are the current rates of discount at the principal foreign centers:

Cities.	Bank rate.	Open market.
	Per cent.	*Per cent.*
London	2¾	2⅝ to 2⅞
Paris	3	2¾ to 3
Brussels	3	2¾ to 3
Amsterdam	3	3
Berlin	4	3⅛ to 3⅜
Hamburg	4	3 to 3¼
Frankfort	4	3 to 3¾
Genoa	4	4
Geneva	3½	3½
St. Petersburg	6	5½ to 6
Vienna	4	3⅞ to 4⅛
Lisbon and Oporto	6	5½ to 6
Madrid, Cadiz, and Barcelona	4	4 to 5
Calcutta	4	4
Copenhagen	3½ to 4	3½ to 4

CONCLUSION.

Has not the time arrived when the United States can say to the lenders of money how much interest it will pay, instead of saying, as heretofore, what rate of interest will you accept? I think that instead of being dictated to by the syndicates we should dictate to them. The time is past when this great people should humbly ask the lenders of money to fix the rate of interest at which they will lend us money. It is a mistaken as well as a humiliating policy for the Secretary of the Treasury to assume that we cannot negotiate a 3½ per cent. bond because the interest is too low. This is discrediting our Government in advance and must not be tolerated by Congress, which has the determination of the question. It is quite apparent that our anxiety to effect loans heretofore has not only kept our credit down, but has served to make large fortunes for some banking institutions and bankers.

On the 12th of January, 1880, the Metropolitan Bank of New York took from the Treasurer $2,450,000 United States 4 per cent. bonds held as security for circulation, and surrendered their circulation, stating that as they could make $90,000 by the sale of the bonds, they sold them simply as a business transaction. (See Appendix D.)

I could present many additional reasons for the conclusion reached that this Government should establish permanently a maximum rate of interest beyond which it will not pay. At present I think 3½ per cent. necessary, though I have no doubt that when the next bonds

shall mature and we wish to refund again, it may be done at 3 per cent. I am not of opinion that this generation either can or should be made to liquidate the total public debt. We have endured the bloodshed and borne the taxation incident to the war. We must yet for a while still suffer from this taxation, but is it not the duty of Congress to reduce the burden to the lowest possible weight consistent with administration? It is for this purpose I have proposed a reduction of interest on the public debt, which is now consuming one-third of the entire revenues of the Government.

Appendix A.

Prices in New York of 4½ per cent. bonds on the 1st and 15th of each month during 1878, furnished by Fisk & Hatch, bankers.

	Bid.	Asked.
January 1	103⅛	103⅜
January 15	103⅞	104
February 1	103½	103⅝
February 15	103⅜	103½
March 1	101¾	*101⅞
March 15	102⅜	102½
April 1	103⅛	103¼
April 15	102¾	102⅞
May 1	103	103⅛
May 15	103⅝	103¾
June 1	103⅜	*103½
June 15	103⅜	103⅝
July 1	104⅜	104⅝
July 15	104½	104⅝
August 1	104¾	104⅞
August 15	104⅞	105
September 2	103¾	*103⅞
September 16	103⅝	103¾
October 1	103⅜	103½
October 15	102⅞	103
November 1	103⅞	104
November 15	104¾	104⅞
December 2	104⅛	*104¼
December 16	104½	104¾

*Exclusive of interest.

Prices in New York of 4 per cent. bonds on the 1st and 15th of each month during 1878, furnished by Fisk & Hatch, bankers.

	Bid.	Asked.
January 1	101	101¼
January 15	102⅛	102⅜
February 1	101¾	102
February 15	102¼	102⅜
March 1	101¾	101⅞
March 15	101⅜	101½
April 1	100⅝	*100⅞
April 15	100⅛	100⅜
May 1	100⅜	100½
May 15	100⅞	101⅛
June 1	101¼	101⅜

Prices in New York of 4 per cent. bonds on the 1st and 15th of each month during 1878, furnished by Fisk & Hatch, bankers—Continued.

	Bid.	Asked.
June 15	101⅛	101¼
July 1	100¼	*100⅜
July 15	100⅜	100½
August 1	100⅝	100¾
August 15	100⅞	101
September 2	100⅞	101
September 16	100½	100¾
October 1	99⅞	*100
October 15	99¾	100
November 1	100	100⅛
November 15	100⅛	100¼
December 2	100⅜	100½
December 16	100⅜	100⅝

*Exclusive of interest.

APPENDIX B.

Statement showing the interest on the public debt of the United States, "due and unpaid," on the first day of each month from January 1, 1870, *to December* 1, 1879, *inclusive, with the average in each year and the average for the decade, as shown by the official statement of the public debt.*

	1870.	1871.	1872.	1873.	1874.
January	$5, 239, 704 25	$6, 327, 196 16	$6, 343, 006 27	$4, 263, 277 15	$6, 987, 477 02
February	10, 774, 141 75	11, 570, 242 07	10, 743, 534 93	8, 725, 038 92	12, 220, 936 07
March	6, 280, 047 00	6, 776, 177 58	6, 549, 653 55	4, 978, 680 79	5, 551, 158 85
April	5, 814, 314 37	6, 145, 120 08	5, 821, 070 94	4, 260, 723 37	3, 838, 708 84
May	4, 547, 513 33	5, 192, 445 58	4, 224, 681 78	3, 556, 456 77	3, 108, 165 74
June	8, 798, 407 05	8, 622, 439 32	6, 837, 128 88	7, 910, 025 52	6, 403, 847 49
July	6, 088, 705 05	6, 020, 771 38	4, 499, 119 88	6, 454, 908 11	3, 757, 375 61
August	12, 732, 101 34	9, 282, 549 14	7, 218, 084 13	13, 176, 085 94	8, 736, 329 33
September	6, 470, 331 25	5, 609, 888 60	4, 806, 989 70	9, 000, 669 57	6, 934, 055 81
October	5, 884, 651 67	4, 777, 200 76	4, 629, 623 47	5, 712, 958 22	7, 010, 216 51
November	4, 221, 411 07	3, 447, 160 21	3, 234, 860 35	5, 116, 946 75	3, 693, 027 73
December	10, 419, 930 15	8, 486, 127 08	6, 530, 607 66	10, 940, 419 46	6, 395, 767 98
	87, 271, 258 28	82, 257, 317 96	71, 438, 361 54	84, 096, 190 57	74, 637, 066 98
Average	7, 272, 604 87	6, 854, 776 49	5, 953, 196 79	7, 008, 015 89	6, 219, 755 57

	1875.	1876.	1877.	1878.	1879
January	$4, 767, 939 67	$4, 097, 728 58	$8, 301, 460 70	$5, 053, 626 83	$4, 081, 903 36
February	8, 992, 273 31	10, 762, 549 17	9, 588, 529 84	5, 934, 136 32	5, 989, 288 87
March	4, 946, 817 17	11, 517, 355 86	8, 777, 067 09	4, 909, 705 21	5, 622, 543 11
April	4, 328, 344 78	4, 638, 788 78	6, 492, 033 83	4, 121, 146 77	5, 328, 020 40
May	3, 162, 454 77	4, 100, 706 76	5, 166, 319 30	3, 631, 079 52	5, 166, 998 77
June	7, 017, 591 10	5, 160, 039 07	7, 706, 113 04	4, 526, 227 09	5, 126, 876 77
July	3, 794, 946 86	3, 973, 336 72	7, 255, 048 94	4, 328, 222 44	4, 897, 621 19
August	9, 430, 346 97	7, 646, 988 78	12, 405, 498 44	9, 470, 946 84	4, 801, 602 32
September	6, 559, 421 80	5, 629, 331 18	8, 310, 132 36	9, 445, 987 84	4, 693, 522 17
October	6, 734, 730 99	5, 405, 460 99	8, 447, 864 77	9, 345, 289 13	4, 189, 523 27
November	3, 658, 875 54	4, 848, 391 31	3, 674, 960 74	4, 110, 436 73	3, 348, 795 12
December	7, 990, 424 88	8, 988, 957 79	4, 557, 692 81	4, 271, 105 51	3, 140, 359 99
	71, 384, 167 84	76, 769, 634 99	90, 682, 721 86	69, 157, 910 23	56, 387, 055 34
Average	5, 948, 680 65	6, 397, 469 58	7, 556, 893 48	5, 763, 159 19	4, 698, 921 28

RECAPITULATION.

Statement showing the average interest on the public debt "due and unpaid" for each year of the decade ending December 1, 1879.

1870	$7,272,604 87
1871	6,854,776 49
1872	5,953,196 79
1873	7,008,015 89
1874	6,219,755 57
1875	5,948,680 65
1876	6,397,469 58
1877	7,556,893 48
1878	5,763,159 19
1879	4,698,921 28

Average for the decade, $6,367,347.38.

APPENDIX C.

TREASURY DEPARTMENT,
OFFICE OF COMPTROLLER OF THE CURRENCY,
Washington, December 9, 1879.

SIR: I have the honor to acknowledge the receipt of your letter of the 8th instant, asking what amount of United States bonds, sixes and fives maturing in 1880 and 1881, are held by the national banks, State banks, savings-banks, and trust companies, and in reply transmit herewith a statement giving the total amount of bonds held by these institutions at the date of their last reports. The amount held by the national banks is for date December 5th, of the present month. The amount held by other banks is for the year 1879, at the date of their last returns to the State officers of the different States, and is obtained from the aggregates contained on pages 112, 113, and 115 in the appendix of my last report, which are herewith inclosed. These amounts are compiled from returns made from the States named in the report, which are also inclosed, consisting of State banks of *twenty* States, trust companies of *six* States, and savings-banks of *fourteen* States. No returns can be obtained from the other States.

It will be seen by reference to these tables that of all of the bonds held by the national banks as security for circulation, nearly one-half are bonds maturing in 1880 and 1881; and that of the bonds held as deposits, a little more than *one-third* are of the same class of bonds.

If one-half of the bonds held by banks, other than national, are of those maturing in 1881, then the total amount of such bonds would be $304,059,909. If of these bonds only *one-third* are of this issue, then the total amount would be $264,881,606. I know of no other basis on which to form an estimate.

A copy of the report with the appendix will be sent to you as soon as received from the Public Printer.

Very respectfully,

JNO. J. KNOX, *Comptroller.*

Hon. FERNANDO WOOD,
Chairman of Committee of Ways and Means, House of Representatives.

APPENDIX D.

Extract from the financial article of the New York Evening Post, January 13, 1880.

On inquiry we find that the Metropolitan National Bank of this city, which had on deposit at Washington $2,450,000 United States 4 per cent. bonds to secure $2,205,000 note circulation, has taken up the bonds and for the time given up its note circulation. The operation is merely a business one, as the bank clears a profit by it of over $90,000.

The bank has a capital of $3,000,000, and occupies a leading position. Mr. Seney, the president, gives it as his opinion that if Congress would reduce the tax on note circulation one-half, it now being 1 per cent., the banks generally would freely take a bond bearing 3.65 per cent. and would largely increase their circulation; and that, all restrictions removed, the Metropolitan alone would take $5,000,000 of such bonds. There is no doubt that if the only legal tender were coin, and taxes on circulation were reduced, bank-note circulation would be largely increased and a place would be made for hundreds of millions of 3½ or 3.65 per cent. bonds. The volume of the currency would then adjust itself precisely to the much-talked-of "wants of trade." Banking would be, as now, free to all; every bank would issue as many notes as there was a demand for; the notes would be perfectly secured by the deposit of bonds, and when the demand for the notes ceased they would be returned to the bank for redemption in coin. Such a currency system would be as nearly perfect as it could be made, and if thoroughly understood it is not seen how any class could object to it.